

August 2001

## Across the Board

"Building Bridges' - WTCA & SLMA Meet to Discuss Important Issues" by Scott Arquilla, WTCA 2001 Secretary

In mid-May the WTCA Executive Committee, along with Dan Holland of Clearspan Components and Richard Brown, a WTCA Past President, were guests of Southeastern Lumber Manufacturers Association (SLMA) at the Steelwood Resort in Loxley, Alabama. Representing SLMA were T. Furman Brodie of Charles Ingram Lumber Co., Effingham, SC; Lee Ashburn of East Coast Lumber Company, Climax, NC; Dick Elliott, Jr. of Elliott Sawmilling Co., Estill, SC; LaVoyd Hudson, Mitch Shackelford and Fred Stimpson of Gulf Lumber Co., Mobile, AL; and Bob Dixon, Jr. of M.C. Dixon Lumber Company, Eufaula, AL. Steve Roundtree and Debbie Burns from SLMA, Forest Park, GA, also joined the group.

The purpose of the meeting was to "Build Bridges," using dialogue to foster an understanding of the issues between SLMA and WTCA. Our goals were to search for common ground and discuss ways of joining forces when appropriate; identify the areas of understanding and conflict between our



differing viewpoints; educate WTCA about Southern Pine lumber manufacturing and timber management; and discuss the positive and negative qualities of Southern Pine from the customer's perspective. After two days of meetings, it seemed that both organizations had a good grasp of the areas where we could both benefit.

Prior to our first discussion, we were given an extensive tour of Gulf Lumber's mill in Mobile, AL, one of

the largest in the South. Some of our members had never been to a sawmill before and the experience was very enlightening. While there is no such thing as a “typical” mill, this plant is “state-of-the-art” and produces 2x4s through 2x12s, SYP visual and MSR grades. However, the term “state-of-the-art” is relative; without annual improvement, a plant could fall behind very quickly. Many of the viewpoints and issues (odd lengths and widths per grade) mentioned in our later discussions were more understandable after touring Gulf’s plant.

During our first meeting, we introduced our WTCA business model to the SLMA members. This model focuses on lumber costs being approximately 50-55 percent of our total costs of goods sold, and how we must provide a fixed cost to our customers, the homebuilders, who in turn, do the same for their customers, the home buyers. Our concerns about the price volatility of the raw materials were echoed by WTCA members, who each had a specific instance where buying on the spot market had affected his/her business because of the need to sell at a fixed price over an extended period of time. Kirk Grundahl voiced the concerns of component manufacturers who have historically been told that their Return on Investment (ROI), and resulting business valuation, was not high enough for the inherent risks accepted. In turn, SLMA members explained that stumpage costs were 70 percent of a lumber manufacturer’s costs, and that the paper/pulp demand directly influenced lumber stumpage costs. Most SLMA members had experiences in which fixed, one-year lumber contracts had been abandoned by buyers after prices fell subsequent to agreement dates.

SLMA members also introduced other pricing influences. The liquid lumber market, for example, contributes significantly to pricing volatility. The influences of brokers, futures traders, treaters and politicians can further amplify this type of volatility. Treaters, it was explained, constitute 45-50 percent of the SYP market and have a big impact at certain times of the year. The treaters, due to the size of their purchases and margins/competition in their businesses, impact lumber volatility by buying the largest possible volume of lumber for the summer construction season. With the volumes treaters purchase, pricing may be better than market price, but they also impact supply in such a way that they can have a direct influence on the short-term supply/demand relationship. Additionally, SLMA manufacturers seem dissatisfied with Random Lengths reporting of commodity prices because they do not feel that this report accurately reflects the true market conditions and prices. This further exacerbates price volatility.

In an effort to find business practices that will help component manufacturers and lumber suppliers have a more consistent ROI and reduce the negative impact of volatility, a business model and a beta test that takes into account this business in an approach to contracting lumber for the supply chain was discussed. WTCA has drafted a “white paper” on this approach that will be refined by SLMA staff and members, in the hopes of generating interest in implementing some individual company beta sites. Both groups want these relationships to bloom into programs that are available for use by everyone in our industry who wants to take advantage of the concepts.

In our second meeting, WTCA members discussed the types, sizes and grades of lumber purchased for truss and wall panel fabrication. WTCA members brought up a number of size and grade requests that could fill immediate needs. As in previous meetings with larger manufacturers, the 2x5 issue was discussed at length. This product was perfect for use by most component manufacturers and was driven by lumber companies responding to potential in the market. However, a couple of issues hurt the long-term viability of this product:

- The pricing for 2x5's was tied to Random Lengths' price for 2x6's. This was unfortunate because this was a specialty grade for the truss industry and could have been priced using one of a variety of available pricing models.
- No consideration was given to what to do with the lower grade 2x5's produced.

When these issues became economic burdens, the product was dropped with very little, if any, discussion on how to solve these issues with the customers using it. WTCA's response to this problem was that the mills should work with component manufacturers to identify possible uses of the downfall products as we could use this product in wall panels and as web material. In fact, its use may reduce web member bracing needs and therefore, be beneficial to our industry.

LaVoyd Hudson, an MSR specialist, inquired about our industry's specific size and width uses as well as the total sales of residential, commercial and agricultural use. He also voiced concern that lumber manufacturers wouldn't be in favor of the 2x5 being a substitute product for the 2x6. WTCA members spent considerable time discussing experiences of using 2x5s and how it impacted the use of 2x4s and 2x6s. The final determination was that it did not really impact the use of 2x6s as much as was expected because it was not used as a direct replacement for 2x6s in trusses. Of primary concern to our members was the need for re-engineering when this grade was introduced and then removed from the market. This was a large cost to truss manufacturers.

After this, we discussed how the floor truss market has been moving toward a 2x3 width from 2x4, and that it may reduce further to a 2x2 wide chord. Canadian SPF mills have produced 2x3s for some time. At one time, Southern Pine 2x3s were produced, but wane and knots, especially in floor trusses, were issues that were hard to overcome and this product was ceded to the SPF market. It was noted that the Canadians produce more MSR, due primarily to fewer knots in SPF, and this results in an improved value for their product.

Our final discussion concerned lumber certification. SLMA members have joined the Sustainable Forest Initiative (SFI), originated by AF&PA, rather than Forestry Stewardship Council (FSC), an organization based in Mexico. SLMA views FSC's goal as certification via marketing, not the sustainability of our forests. Further, the FSC cost is high: \$3 per acre in year one and \$1 per acre in years two and three, plus the cost of additional personnel. SLMA believes the Southeast landowner has nothing to gain from this. They take care of their land because it provides their families with income. "Certification taken to an extreme is an environmental nightmare," and concern for "a one size fits all" approach by the FSC programs were among the negative comments mentioned by SLMA members. To some degree, SLMA looks upon the issue of certification in the same way in which it views the U.S. Forest Service and its failure to manage the forests of the Western U.S., which have produced the increased fire hazards on Federal lands: It is just another form of quasi-government control over their businesses. They see little or no value in this. WTCA members voiced their concern over certification and how it can impact downstream users through a chain of custody issues. Further, WTCA would be disappointed if the certification strategy did not consider the impact on potential cost increases to downstream users and would make the lumber products less economically viable in our current markets.

Over the two days we spent with SLMA, we learned quite a bit about their industry. One SLMA member commented, "I personally learned a lot about the truss industry. I look forward to our associations and industries working together." The SLMA industry is primarily small, family owned businesses, very similar in make-up to the majority of WTCA members. Their group as a whole suffered under the five-year lumber quota with Canada, hence their position with the [Coalition for Fair Lumber Imports \(June/July WOODWORDS\)](#). This position does not completely coincide with our industry's predicament with respect to this trade issue. But, SLMA comes to the table in the hopes of understanding our positions on issues, understanding where mutually beneficial opportunities exist and starting new relationships with WTCA members, one of their very important customer groups.

As noted above, we will be making a formal proposal to the SLMA Board to encourage a new kind of business relationship. Each WTCA member will have the opportunity to review this proposal and make a

decision as to whether this fits into his/her business plan for lumber purchases.

I would like to personally thank SLMA for their time and effort in putting the meeting together, and hope that these dialogues will lead to future, mutually rewarding discussions to benefit both SLMA and WTCA members.

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